

106TH CONGRESS  
1ST SESSION

# S. 1471

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to individual investment accounts, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

AUGUST 2, 1999

Mr. BREAUX introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to allow a deduction for contributions to individual investment accounts, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

### 3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Individual Investment  
5 Account Act of 1999”.

### 6 **SEC. 2. ESTABLISHMENT OF INDIVIDUAL INVESTMENT AC-** 7 **COUNTS.**

8 (a) IN GENERAL.—Part VII of subchapter B of chap-  
9 ter 1 of the Internal Revenue Code of 1986 (relating to  
10 additional itemized deductions for individuals) is amended

1 by redesignating section 222 as section 223 and by insert-  
 2 ing after section 221 the following new section:

3 **“SEC. 222. INDIVIDUAL INVESTMENT ACCOUNTS.**

4       “(a) DEDUCTION ALLOWED.—In the case of an indi-  
 5 vidual, there shall be allowed as a deduction an amount  
 6 equal to the aggregate amount paid in cash for the taxable  
 7 year by such individual to an individual investment ac-  
 8 count established for the benefit of such individual.

9       “(b) DEFINITIONS AND SPECIAL RULES.—For pur-  
 10 poses of this section—

11           “(1) INDIVIDUAL INVESTMENT ACCOUNT.—The  
 12 term ‘individual investment account’ means a trust  
 13 created or organized in the United States for the ex-  
 14 clusive benefit of an individual, but only if the writ-  
 15 ten governing instrument creating the trust meets  
 16 the following requirements:

17           “(A) No contribution will be accepted un-  
 18 less it is in cash.

19           “(B) The trustee is a bank (as defined in  
 20 section 408(n)) or another person who dem-  
 21 onstrates to the satisfaction of the Secretary  
 22 that the manner in which that person will ad-  
 23 minister the trust will be consistent with the re-  
 24 quirements of this section.

1           “(C) No part of the trust assets will be in-  
 2           vested in any collectible (as defined in section  
 3           408(m)).

4           “(D) The assets of the trust will not be  
 5           commingled with other property except in a  
 6           common trust fund or common investment  
 7           fund.

8           “(2) TIME WHEN CONTRIBUTIONS DEEMED  
 9           MADE.—A taxpayer shall be deemed to have made a  
 10          contribution on the last day of a taxable year if the  
 11          contribution is made on account of such taxable year  
 12          and is made not later than the time prescribed by  
 13          law for filing the return for such taxable year (not  
 14          including extensions thereof).

15          “(c) TAX TREATMENT OF DISTRIBUTIONS.—

16               “(1) IN GENERAL.—Except as otherwise pro-  
 17               vided in this subsection, any amount distributed out  
 18               of an individual investment account shall be included  
 19               in gross income by the distributee unless such  
 20               amount is part of a qualified 1st-time homebuyer  
 21               distribution.

22               “(2) QUALIFIED 1ST-TIME HOMEBUYER DIS-  
 23               TRIBUTION.—For purposes of this subsection—

24                       “(A) IN GENERAL.—The term ‘qualified  
 25                       1st-time homebuyer distribution’ means any

1 payment or distribution received by a 1st-time  
 2 homebuyer from an individual investment ac-  
 3 count to the extent such payment or distribu-  
 4 tion is used by the individual within 60 days  
 5 to pay qualified acquisition costs with respect  
 6 to a principal residence for such individual.

7 “(B) DOLLAR LIMITATION.—The aggre-  
 8 gate amount which may be treated as qualified  
 9 1st-time homebuyer distributions for all taxable  
 10 years shall not exceed \$15,000.

11 “(C) BASIS REDUCTION.—The basis of any  
 12 principal residence described in subparagraph  
 13 (A) shall be reduced by the amount of any  
 14 qualified 1st-time homebuyer distribution.

15 “(D) DEFINITIONS.—For purposes of this  
 16 paragraph—

17 “(i) QUALIFIED ACQUISITION  
 18 COSTS.—The term ‘qualified acquisition  
 19 costs’ means the costs of acquiring, con-  
 20 structing, or reconstructing a residence.  
 21 Such term includes any usual or reason-  
 22 able settlement, financing, or other closing  
 23 costs.

24 “(ii) 1ST-TIME HOMEBUYER.—The  
 25 term ‘1st-time homebuyer’ means any indi-

vidual if such individual had no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this paragraph applies.

“(iii) PRINCIPAL RESIDENCE.—The term ‘principal residence’ has the same meaning as when used in section 1034.

“(3) TRANSFER OF ACCOUNT INCIDENT TO DIVORCE.—The transfer of an individual’s interest in an individual investment account to his former spouse under a divorce decree or under a written instrument incident to a divorce shall not be considered a taxable transfer made by such individual notwithstanding any other provision of this subtitle, and such interest at the time of the transfer shall be treated as an individual investment account of such spouse and not of such individual. Thereafter such account shall be treated, for purposes of this subtitle, as maintained for the benefit of such spouse.

“(d) TAX TREATMENT OF ACCOUNTS.—

“(1) EXEMPTION FROM TAX.—An individual investment account shall be exempt from taxation under this subtitle unless such account has ceased to be such an account by reason of paragraph (2). Not-

withstanding the preceding sentence, any such account shall be subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).

“(2) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION.—

“(A) IN GENERAL.—If, during any taxable year of the individual for whose benefit the individual investment account is established, that individual engages in any transaction prohibited by section 4975 with respect to the account, the account shall cease to be an individual investment account as of the first day of that taxable year.

“(B) ACCOUNT TREATED AS DISTRIBUTING ALL ITS ASSETS.—In any case in which any account ceases to be an individual investment account by reason of subparagraph (A) on the first day of any taxable year, paragraph (1) of subsection (c) shall be applied as if there were a distribution on such first day in an amount equal to the fair market value (on such first day) of all assets in the account (on such first day).

1           “(3) EFFECT OF PLEDGING ACCOUNT AS SECUR-  
 2           RITY.—If, during any taxable year, an individual for  
 3           whose benefit an individual investment account is es-  
 4           tablished uses the account or any portion thereof as  
 5           security for a loan, the portion so used shall be  
 6           treated as distributed to that individual.

7           “(4) ROLLOVER CONTRIBUTIONS.—Paragraph  
 8           (1) shall not apply to any amount paid or distrib-  
 9           uted out of an individual investment account to the  
 10          individual for whose benefit the account is main-  
 11          tained if such amount is paid into another individual  
 12          investment account for the benefit of such individual  
 13          not later than the 60th day after the day on which  
 14          he receives the payment or distribution.

15          “(e) COST-OF-LIVING ADJUSTMENT.—

16          “(1) IN GENERAL.—In the case of any taxable  
 17          year beginning in a calendar year after 2000, the  
 18          dollar amount contained in subsection (c)(2)(B)  
 19          shall be increased by an amount equal to—

20                  “(A) such dollar amount, multiplied by

21                  “(B) the cost-of-living adjustment deter-  
 22                  mined under section 1(f)(3) for the calendar  
 23                  year in which the taxable year begins, by sub-  
 24                  stituting ‘1999’ for ‘1989’ in subparagraph (B)  
 25                  thereof.

1           “(2) ROUNDING.—If any dollar amount (as in-  
 2           creased under paragraph (1)) is not a multiple of  
 3           \$10, such dollar amount shall be increased to near-  
 4           est multiple of \$10 (or, if such dollar amount is a  
 5           multiple of \$5 and not of \$10, such dollar amount  
 6           shall be increased to next higher multiple of \$10).

7           “(f) CUSTODIAL ACCOUNTS.—For purposes of this  
 8           section, a custodial account shall be treated as a trust if  
 9           the assets of such account are held by a bank (as defined  
 10          in section 408(n)) or another person who demonstrates,  
 11          to the satisfaction of the Secretary, that the manner in  
 12          which he will administer the account will be consistent  
 13          with the requirements of this section, and if the custodial  
 14          account would, except for the fact that it is not a trust,  
 15          constitute an individual investment account described in  
 16          subsection (b). For purposes of this title, in the case of  
 17          a custodial account treated as a trust by reason of the  
 18          preceding sentence, the custodian of such account shall be  
 19          treated as the trustee thereof.

20          “(g) REPORTS.—The trustee of an individual invest-  
 21          ment account shall make such reports regarding such ac-  
 22          count to the Secretary and to the individual for whose ben-  
 23          efit the account is maintained with respect to contribu-  
 24          tions, distributions, and such other matters as the Sec-  
 25          retary may require under regulations. The reports re-



1 quired by this subsection shall be filed at such time and  
 2 in such manner and furnished to such individuals at such  
 3 time and in such manner as may be required by those reg-  
 4 ulations.”

5 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-  
 6 JUSTED GROSS INCOME.—Subsection (a) of section 62 of  
 7 such Code (defining adjusted gross income) is amended  
 8 by adding after paragraph (17) the following new para-  
 9 graph:

10 “(18) INDIVIDUAL INVESTMENT ACCOUNT CON-  
 11 TRIBUTIONS.—The deduction allowed by section 222  
 12 (relating to individual investment accounts).”

13 (c) INDIVIDUAL INVESTMENT ACCOUNTS EXEMPT  
 14 FROM ESTATE TAX.—Part III of subchapter A of chapter  
 15 11 of such Code is amended by redesignating section 2046  
 16 as section 2047 and by inserting after section 2045 the  
 17 following new section:

18 **“SEC. 2046. INDIVIDUAL INVESTMENT ACCOUNTS.**

19 “Notwithstanding any other provision of law, there  
 20 shall be excluded from the value of the gross estate the  
 21 value of any individual investment account (as defined in  
 22 section 222(b)). Section 1014 shall not apply to such ac-  
 23 count.”

24 (d) NONRECOGNITION OF GAIN ON SALE OF PRIN-  
 25 CIPAL RESIDENCE WHERE AMOUNT EQUAL TO OTHER-

1 WISE TAXABLE GAIN DEPOSITED INTO INDIVIDUAL IN-  
 2 VESTMENT ACCOUNT.—Part III of subchapter B of chap-  
 3 ter 1 of such Code is amended by inserting after section  
 4 121 the following new section:

5 **“SEC. 121A. EXCLUSION OF GAIN FROM SALE OF PRINCIPAL**  
 6 **RESIDENCE IF REINVESTMENT IN INDIVIDUAL INVESTMENT ACCOUNT.**

8 “(a) GENERAL RULE.—Gross income does not in-  
 9 clude gain from the sale or exchange of property if, during  
 10 the 5-year period ending on the date of the sale or ex-  
 11 change, such property has been owned and used by the  
 12 taxpayer as his principal residence for periods aggregating  
 13 3 years or more.

14 “(b) LIMITATION.—The amount of gain excluded  
 15 from gross income under subsection (a) shall not exceed  
 16 the amount paid in cash (during the 1-year period begin-  
 17 ning on the date of the sale or exchange) to an individual  
 18 investment account (as defined in section 222(b)) estab-  
 19 lished for the benefit of the taxpayer or his spouse.

20 “(c) CERTAIN RULES ON OWNERSHIP AND USE TO  
 21 APPLY.—Rules similar to the rules of section 121(d) shall  
 22 apply for purposes of determining ownership and use  
 23 under this section.”

1 (e) TAX ON PROHIBITED TRANSACTIONS.—Section  
2 4975 of such Code (relating to prohibited transactions)  
3 is amended—

4 (1) by adding at the end of subsection (c) the  
5 following new paragraph:

6 “(6) SPECIAL RULE FOR INDIVIDUAL INVEST-  
7 MENT ACCOUNTS.—An individual for whose benefit  
8 an individual investment account is established shall  
9 be exempt from the tax imposed by this section with  
10 respect to any transaction concerning such account  
11 (which would otherwise be taxable under this sec-  
12 tion) if, with respect to such transaction, the ac-  
13 count ceases to be an individual investment account  
14 by reason of the application of section 222(d)(2)(A)  
15 to such account.”; and

16 (2) in subsection (e)(1), by striking “or” at the  
17 end of subparagraph (E), by redesignating subpara-  
18 graph (F) as subparagraph (G) and by inserting  
19 after subparagraph (E) the following new subpara-  
20 graph:

21 “(F) an individual investment account de-  
22 scribed in section 222(b), or”.

23 (f) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL  
24 INVESTMENT ACCOUNTS.—Section 6693(a)(2) of such  
25 Code (relating to failure to provide reports on individual

1 retirement account or annuities) is amended by striking  
 2 “and” at the end of subparagraph (C), by striking the pe-  
 3 riod at the end of subparagraph (D) and inserting “, and”,  
 4 and by adding at the end the following new subparagraph:

5                   “(E) section 222(g) (relating to individual  
 6                   investment accounts).”

7       (g) ADJUSTMENT OF BASIS OF RESIDENCE AC-  
 8 QUIRED THROUGH USE OF ACCOUNT.—Subsection (a) of  
 9 section 1016 of such Code is amended by striking “and”  
 10 at the end of paragraph (26), by striking the period at  
 11 the end of paragraph (27) and inserting “; and”, and by  
 12 adding at the end the following new paragraph:

13                   “(28) to the extent provided in section  
 14       222(c)(2)(C), in the case of a residence the acquisi-  
 15       tion of which was made in whole or in part with  
 16       funds from an individual investment account.”

17       (h) CLERICAL AMENDMENTS.—

18               (1) The table of sections for part III of sub-  
 19       chapter B of chapter 1 of such Code is amended by  
 20       inserting after the item relating to section 121 the  
 21       following new item:

                  “Sec. 121A. Exclusion of gain from sale of principal residence if  
                   reinvestment in individual investment account.”

22               (2) The table of sections for part VII of sub-  
 23       chapter B of chapter 1 of such Code is amended by

1 striking the item relating to section 222 and insert-  
 2 ing the following:

“Sec. 222. Individual investment accounts.  
 “Sec. 223. Cross reference.”

3 (3) The table of sections for part III of sub-  
 4 chapter A of chapter 11 of such Code is amended by  
 5 striking the item relating to section 2046 and insert-  
 6 ing the following new items:

“Sec. 2046. Individual investment accounts.  
 “Sec. 2047. Disclaimers.”

7 (i) EFFECTIVE DATE.—The amendments made by  
 8 this section shall apply to taxable years beginning after  
 9 December 31, 1999.

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